

NYSE:SEI Q2 2025 Earnings Call Transcript

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Operator | Conference Operator:

And welcome to the Solaris Energy Infrastructure, Inc. Second Quarter 2025 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star then two. Please note this event is being recorded. I would now like to turn the conference over to Yvonne Fletcher, Senior Vice President of Finance and Investor Relations. Please go ahead.

Yvonne Fletcher | Senior Vice President of Finance and Investor Relations:

Thank you, Operator. Good morning and welcome to the Solaris Second Quarter 2025 Earnings Conference Call. Joining us today are our Chairman and CEO, Bill Dartler, and our President and CFO, Kyle Ramachandran. Before we begin, I'd like to remind you of our standard cautionary remarks regarding the forward-looking nature of some of the statements that we will make today. Such forward-looking statements may include comments regarding future financial results and reflect a number of known and unknown risks. Please refer to our press release issued yesterday, along with other recent public filings with the Securities and Exchange Commission that outlined those risks. We also encourage you to refer to our earnings supplement slide deck, which was published last night on the investor relations section of our website under events and presentations. I would like to point out that our earnings release and today's conference call will contain discussion of non-GAAP financial measures, which we believe can be useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP. Reconciliations to comparable gap measures are available in our earnings release, which is posted on the news section on our website. I'll now turn the call over to our Chairman and CEO, Bill Zartler.

Bill Zartler | Chairman and CEO:

Thank you, Yvonne, and thank you everyone for joining us this morning. Solaris delivered strong second quarter results across both business segments. The second quarter marks the third full quarter since introducing our power solutions business. We continue to grow our power solutions business and generate significant cash flow from our legacy logistics solutions business. The continued integration of the business lines demonstrates the complementary strengths of both our people and our businesses. I'll begin with an update on our power solutions segment. During the quarter, we added capacity with current customers and introduced new customers to our offering. If we look back to 10 months ago when we acquired Mobile Energy Rentals, They were operating approximately 150 megawatts. Today, we have over 600 megawatts working for six different customers. Additionally, we have contracts in place with many of these customers and others to further accelerate our activity over the course of the next several quarters as we take delivery of previously ordered new generation capacity. As a result of this commercial momentum, we are servicing an increasingly diverse set of end markets. These include microgrids focused on energy production, gas processing plants, shorter-term utility grid resiliency efforts, including synchronization with the grid to provide additional power to a customer, and data centers supporting artificial intelligence applications. Our commercial opportunities span various industries with multiple customers for projects totaling several gigawatts of opportunity. Customer feedback thus far indicates that our modular and reliable power generation equipment coupled with its

favorable emissions profile and other unique operational benefits provide us with a competitive edge in these opportunities. Market demand for power generation continues to accelerate as the confluence of electrification of everything theme, artificial intelligence power needs, and the reshoring of manufacturing unfolds, which in our view is likely still in its early innings. The grid continues to be challenged to address these needs, considering both time to power as well as the complex nature of the size and in the case of artificial intelligence applications, variability of the load demand that is being introduced. Reliability is critical to our customers. We consider modular, power-dense generation uniquely capable of addressing this requirement as operational risk is distributed across multiple appropriately sized nodes, creating layers of redundancy. For instance, a robust microgrid may integrate multiple small or mid-sized turbines with grid power or large frame turbines, potentially supplemented with energy storage solutions like batteries. We believe this hybrid structure delivers optimal redundancy with greater inertia and spinning reserve capacity, enabling high reliabilities. Modular generation also allows customers to scale their power capacity in increments as needed. Large-scale microgrids, particularly for artificial intelligence computing applications, rarely require full peak power from the outset. Modular power solutions offer an effective strategy to synchronize the growth of the power supply data deployment, while continuing to provide additional layers of redundancy via spinning reserve capacity at scale. The regulatory backdrop has offered recent clarity in support of our distributed generation solutions. For example, Senate Bill 6 in Texas, which was recently signed into law. The new law requires enough co-located generation for large demand loads so that they can be self-sufficient off the grid. We have observed that this regulatory clarity is creating numerous potential commercial opportunities participants continue to acknowledge the reliability that our solutions can provide, both directly to the customer, but also to the broader power supply, transmission, and regulatory ecosystem. Our current power solutions, which include both turbine and reciprocating generation, deliver benefits such as reduced time to power, low emissions, high power density, and operational reliability. By maintaining a generation agnostic approach, we can tailor combinations of power We're also focused on strengthening our business by evaluating adjacent opportunities that complement our core offerings. As a recent example, our engineering, manufacturing, and operations teams collaborated to design and implement modifications to the Selective Catalytic Reduction Systems, or SCRs, to make those systems more mobile. This enhanced mobility enables more efficient assembly, and equipment placed onsite is expected to reduce operational downtime on location. The installation of these modified SCRs began two months ago on our initial data center project and implementation is going quite well. These proprietary modifications also enabled us to significantly accelerate the commissioning of the SCR units, highlighting another benefit of the leveraging of our organizational agility that is core to Solaris' DNA. When paired with our already low emissions turbines, these enhanced SCRs will support customers in achieving an attractive emissions profile at the site. Another example is that we have recently utilized our in-house software and technology expertise to develop an in-house app called Solaris Pulse to enable the centralized fingertip remote monitoring of our power generation, enabling efficient operation and maintenance of our equipment. We're also focused on other balance and plan equipment as systems that are critical to providing power to our customers in the form they require. This can include transformers, switchgears, breakers, and wiring. We've collaborated with several partners to offer customized balance of plant solutions to manage our customers' complex loads and are exploring ways to further integrate this capability in-house. We believe this turnkey approach, providing both an optimal source of generation as well as bespoke balance of plant solutions, is an opportunity for us to further differentiate our power as a service offering. We believe we are well positioned to add value to our customers and grow both organically and inorganically. Turning to our logistics solution segment. The investments we've made in our systems have helped us drive further frac efficiencies for our customers and end users, which in turn has enhanced earnings and cash flow for Solaris. Our silo systems, when combined with a top fill, can help our customers process large volumes of sand in support of simulfrac and trimulfrac completions. As an example, we are currently working on a pad for a major E&P operator where we have 12 silos, two top fills on a leading-edge completion design job using trimulfracs. Financially, this has had a meaningful impact on Solaris. When our logistics solutions business started, we offered one piece of kit, and we earned about \$1 million of profit per frat crew on an annual basis. Now our leading-edge job has four different equipment systems earning closer to \$4 million of profit per frat crew annually. Structurally, we see a continued reduction in the number of active frat crews required to keep oil and gas production flat. To achieve

these efficiencies, each crew will be asked to do more, and we believe our equipment is designed and built to help deliver those efficiencies. While activity during the second half of the year is likely to slow down further due to the recent softness in oil prices, we believe that we remain well-positioned to maintain or grow share as completion intensity continues to rise. With this business in cash generation and harvest mode, we believe the segment will continue to generate significant free cash flows. In summary, we are pleased with both the operational and commercial advancements achieved during the quarter. We are confident that we are establishing a robust and distinctive business position for continued growth and future opportunities. With that, I'll turn it over to Kyle. Thanks, Bill, and good morning, everyone.

Kyle Ramachandran | President and CFO:

I'll begin this morning by providing a review of our quarterly results, an overview of our updated guidance and outlook, and a re-tap of our recent financings and our current liquidity. During the second quarter, Solaris generated total revenue of \$149 million, which reflected an 18% increase from the prior quarter due to continued activity growth in Power Solutions, which more than offset a modest decline in logistics solutions activity. Adjusted EBITDA of \$61 million represented a 29% increase from the prior quarter. Power Solutions contributed 67% of our total segment adjusted EBITDA and remains on track to deliver more than 80% our total segment adjusted EBITDA after our on-order fleet is deployed. During the second quarter, we formed Stateline Power LLC, a 50.1% Solaris-owned joint venture with an existing data center customer to co-own and operate approximately 900 megawatts at a single site. Adjusting for the 49.9% of non-controlling interest in the JV, adjusted EBITDA attributable to Solaris shareholders was approximately \$62 million. While our results are reported on a consolidated basis, which includes 100% of the JV, we believe that adjusted EBITDA attributable to Solera shareholders is an important metric for the investment community and our shareholders, and we plan to provide this additional profitability measure going forward. Turning now to our segment results and outlook. During the second quarter, the power solution segment generated revenue from approximately 600 megawatts of capacity, an increase of greater than 50% from the prior quarter. This increase was driven by increased demand from our customers, which we are meeting using a combination of new equipment deliveries, as well as selective short-term sourcing of third-party power generation capacity. For the third quarter of 2025, we expect activity as measured by average megawatts earning revenue to be at least 600 megawatts. Segment adjusted EBITDA for Solaris Power Solutions was \$46 million, a 43% increase from the first quarter. Our order delivery schedule for the remainder of 2025 reflects fewer new equipment deliveries before picking up again in the first quarter of 2026. This drives our expectation for segment-adjusted EBITDA contribution over the next two quarters to be modestly higher. Additionally, we benefited in the second quarter from project startup and commissioning revenue that was pulled forward due to the acceleration of capacity that are unlikely to repeat at a similar magnitude in any single quarter. In our logistics segment, we averaged 94 fully utilized systems, a decline of 4% for the first quarter. We expect continued oil price softness to drive lower drilling and completion activity. While we are evaluating opportunities to continue to drive new customer additions, the expected decline in market activity levels results in a forecasted fully utilized system count down approximately 10% to 15% for the third quarter, with a slightly more pronounced decline in segment-adjusted EBITDA due to the impact of fixed cost absorption. Getting these factors and considering corporate and other expense results in total company adjusted EBITDA guidance for both the third and fourth quarters of \$58 to \$63 million, relatively flat from the second quarter, driven by some continued growth in power solutions, limited benefit from startup and commissioning activities, and a lower logistic solutions outlook. For more details on the guidance and other corporate modeling items, such as interest expense, depreciation, amortization, tax rate, and share count, please refer to the earnings supplement slide deck published on our website. Turning now to a recap of our financing activity during the quarter. Polaris raised \$155 million in the form of four and three quarters senior convertible notes due in 2030. The proceeds from this financing, combined with operating cash from non-JV activities, are expected to cover the company's remaining capital expenditure commitment. On behalf of the JV, we closed a \$550 million senior secured loan facility and subsequently drew an initial funding of \$72 million. This facility is expected to cover all remaining planned JV CapEx needs to deliver and stand up at stated capacity

of approximately 900 megawatts. The flatter delivery schedule during the second half of 2025 also coincides with fewer required Solaris-only progress payments for our order book over the next two quarters which will result in a moderated CapEx profile during the second half of the year in advance of final payments of equipment in 2026. We are excited about the expanding opportunity set available to Solaris. Our continued priority is to deliver strong returns on invested capital as we continue to develop our power solutions business while sustaining strong cash flow from our logistics operations. With that, we'd now be happy to take your questions.

Operator | Conference Operator:

We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. And please restrict yourself to one question and one follow-up. At this time, we will pause momentarily to assemble our roster. The first question comes from Steven Gengaro with Stifel. Please go ahead.

Steven Gengaro | Analyst, Stifel:

Thank you and good morning, everybody. So, what I wanted to just ask for a little more detail on was the 600 megawatts that you kind of have averaged operating in a quarter versus kind of what you actually own right now and maybe understand sort of how we should think about that dynamic over the back half of the year as you kind of work to meet your customers' needs.

Kyle Ramachandran | President and CFO:

Yes, Steven, we were able to source some additional capacity to meet customer demand in the second quarter through some third-party resources that, you know, through the MER relationships, we continue to benefit from those relationships. As we look forward to the second half of the year, we do have some of our deliveries coming in. And as those deliveries come in, some of the re-rented assets will phase out. And so you kind of see that in the guidance that we provided here today. where we've got a sort of flattish outlook for total megawatts working, but we've got a bit of an expansion on the effective dollars of EBITDA per megawatt in the guidance. And as we look forward to 26, we'll continue to see that work its way through as the fleet gets fed up of our own capacity and some of this third-party assets get tapered off. I think as we look at our order book going forward here, we've got best-in-class units coming off the line here with the the best emissions profile of any sort of OEMs. And then, you know, we've coupled them now with the SCRs on the first data center site. And that, as we alluded to in the call, is going very well. And so our fleet, you know, we're really excited about the expansion of our fleet. We were able here in the second quarter and the second half of this year to benefit from some third-party assets. But as we roll on our fleet, we really think we're We're delivering fit-for-purpose equipment here that's going to be able to meet the necessary emissions profiles for this equipment to be on location for a very long period of time, operating at very efficient levels. So that's sort of how we see the evolution here in the second half and going forward.

Steven Gengaro | Analyst, Stifel:

Thanks, Kyle. That's helpful. Just so I understand it a little better is, it appears, I mean, I would imagine the owned assets have got a higher EBITDA per asset deployed per fleet, as you mentioned, so that should evolve. Can you tell us at the end of the quarter how much owned capacity that you had?

Kyle Ramachandran | President and CFO:

Yeah, I think it's going to be a little bit difficult quarter for quarter here as we take deliveries of our owned assets to to get too granular without losing the forest for the trees. What I would say is we will continue to see the sort of three to four-year paybacks on our own capacity, and that's reflective of the true underlying economics of the capital investments that we're making. And it's going to work its way through the effective EBITDA margin as the re-rents come off. Without getting too far into the weeds here, I think what we've indicated here today is an expansion in EBITDA profile per megawatt in the second half of the year as our deliveries come in.

Steven Gengaro | Analyst, Stifel:

Great. Thank you, Kyle.

Kyle Ramachandran | President and CFO:

Thank you.

Operator | Conference Operator:

The next question is from Dave Anderson with Barclays. Please go ahead.

Dave Anderson | Analyst, Barclays:

Hi. Good morning. along the same lines in your capacity. I know a lot of the focus has been on contracting your remaining capacity that comes out in 2027. I'm curious if you have plans beyond the 1.7 gigawatts that you're going to be operating. How does the queue look today in placing additional orders with OEMs? I know Baker Hughes was talking about doubling their capacity of their Nova LTs. I don't know if that necessarily fits in terms of The kit you're using, and I was also just curious along those same lines about the third-party power capacity. Is that a potential M&A, or maybe you were referring to fit for purpose, so maybe it doesn't necessarily fit that kit. But just a little bit of talk about kind of your capacity beyond what you've already planned so far.

Bill Zartler | Chairman and CEO:

We're constantly making a buy versus build decision point on the asset quality, the age of the assets, and what we're looking at. So we like the mix that we have today, and we like the order book we have today. In terms of looking forward, I think the analysis is correct that the time to deliver new equipment, if you want to order some today, has continued to be pushed back. And so we're evaluating what the next move around that is, and it needs to – into a specific project basis to look forward to order additional equipment at this point.

Dave Anderson | Analyst, Barclays:

And on the M&A side, does that make sense or no?

Bill Zartler | Chairman and CEO:

Yeah, it's wrapped that up in the build versus buy perspective. And I think there is a power generation equipment isn't just ubiquitous. There is a significant difference in the quality, the maintenance expense, the asset value, just the overall quality and the emissions, it's all wrapped up into those decisions on what we look at in terms of our specific assets that we like to operate.

Operator | Conference Operator:

The next question is from Scott Gruber with Citigroup. Please go ahead.

Scott Gruber | Analyst, Citigroup:

Yeah, thank you. So just following on the questions on the second half, you know, 4Q EBITDA, Probably flat here. I assume there's a bit of improvement on the power side as you continue to have your own equipment delivered. But that would imply just a modest decline in logistics in 4Q to keep the overall EBITDA flat. Is that the right read here, that the logistics decline is just modest in 4Q?

Kyle Ramachandran | President and CFO:

Yeah, I think that's right. We do have some implied, you know, continued decline. just sort of activity challenges as we look at the full second half, including in the fourth quarter. But I think importantly in what we highlighted in the prepared remarks is we've been able to demonstrate on the Solaris logistics side an ability to really continue to lead the way as far as cutting edge completion design and well intensity. And we alluded to it on the call with respect to the amount of capital that we're now deploying on leading edge job sites. And I think our guidance today reflects a macro theme with respect to frack activity. But I think we've got continued torque in that business with capital that's ready to go to work with minimal sort of remaining startup expense, if you will. And so there are incrementals there, but I think we've taken a conservative outlook with respect to the guidance outlined today. But we do feel like that business unit has an ability to continue to gain share here as job designs get more and more intense.

Scott Gruber | Analyst, Citigroup:

I appreciate that, Kyle. And then we recently saw another company secure a 10-year power supply agreement for a microgrid in the Permian. You have a few microgrid contracts in the oil and gas space and obviously a lot of good relationships. Just keep in mind some color of what you're seeing in oil and gas for microgrids and how the T's and C's of those contracts, pricing, duration, compared to to what you're seeing outside of oil and gas and data centers and elsewhere, and just your appetite to build that side of the business as you continue to grow your power solutions.

Bill Zartler | Chairman and CEO:

If you think about the oil and gas market that we're serving, it's the production end of this. It's the gas processing end of that. It's a bit of microgrid for those things. We're not out providing power for the frack horsepower. where it's very mobile and we're moving it around. So we're building stable microgrids. Those customers' credit qualities are just as good as some of the data centers, if not better in certain cases. So I think we view those customers as great customers. The tenor of the pricing of it is relatively similar and we know them and it is a little bit of our comfort zone in dealing with those end markets because we know the players all the way up to the top of all of those organizations and um, have built good relationships and they

trust us to do this for them as we've done this for them, you know, in the frack business, um, as well as, you know, now being able to provide that same thing on power and having a resume and history of actually, you know, executing, executing with high reliability, uh, for them in the market. So, you know, we're, we're relatively customer agnostic and if it's all about pricing and tenor and, um, and the location and how well it is for us to serve that and, uh, So we do like that business as well as the data center market.

Kyle Ramachandran | President and CFO:

And one little anecdote I would add on top of that is clearly we're seeing all the upstream companies, all the midstream companies looking to play a significant role in the data center build-out as well. And so I think we're looking at it as building relationships with companies multiple parties across multiple industries that all are driving around the electrification of everything theme. And I think whether you are a producer of molecules in the upstream world or you are a mover of molecules in the midstream world, you're looking at the data center as a pretty attractive end market. So if we're building relationships with the folks that are ultimately going to play a bigger role in the data center build-out, it can be quite accretive as we look at the strategic development of our customer base over multiple years. Good point.

Operator | Conference Operator:

The next question is from Derek Podheiser with Piper Sandler. Please go ahead.

Derek Podheiser | Analyst, Piper Sandler:

Hey, good morning. So I noticed on the presentation, it looks like you added about 70 megawatts into the energy market. Maybe could you expand a little bit on where those went to, kind of the terms and payback with those? Maybe what type of kit? Are they the smaller 5.7 turbines or maybe some of the bigger ones? Just maybe some color on that.

Kyle Ramachandran | President and CFO:

Yeah, thanks, Eric. Yeah, good observation of the details there. It did go into the energy market with an existing customer, you know, as a bill that's super high quality, very large midstream operator. It's an existing relationship that we continue to really drive significant synergies through. We have executed well with them. They are continuing to view us as their partner of choice. As we look at the mix of duration and pricing, again, While it's not the same duration of our longer data center contract, it is that pricing that is more attractive. So as Bill alluded to, it's a trade-off between duration and returns. And as we look at sort of a decision-making process as well, we really haven't gotten into it much this morning, but we continue to be in very advanced dialogues with multiple parties around the hundreds of megawatts of opportunities to support big data center operations. those timelines look a little bit different than some of the real-time reactions that we're seeing in the Permian Basin with respect to some of the infrastructure not being able to get online due to the grid effectively being delayed. And so it's somewhat of a function of how the decisions are being made. I think importantly, despite putting this 60-ish odd megawatts into the energy space, we still have significant open capacity available to meet the demands of the larger scale data centers. So we've got a fleet business here today, and so we're balancing holding capacity back with putting capacity to work with those that are ready to make a decision.

Derek Podheiser | Analyst, Piper Sandler:

Yeah, no, that makes sense. Appreciate the color, Kyle. Maybe just kind of a follow-up to that. I think you have about 450-some-odd megawatts uncontracted, so maybe just asking about that. When do you think we should get an announcement as far as, you know, the next data center contract and will that be with a different customer than your customer today?

Kyle Ramachandran | President and CFO:

Well, I think it's always difficult to predict specific timing. What I would say is our conversations are all going very well, multiple parties. We are oversold from a discussion perspective, not from a contracted perspective quite yet. So we're working through those steps and, you know, we're seeing broadly continued acceleration. Certainly a lot of news coming out of Pennsylvania last week on a very macro basis. SB6, as we alluded to on the call, that's driving discussions as well. What we're seeing is continued momentum around people recognizing the benefit of our modular, scalable unit construction. to support the ramp up in the data centers. And then at the point with which they've really reached full build out, there's significant benefit in having this dedicated generation available, even in the context of getting significant grid power. And so I think folks are slowly but surely coming to realize that this hybrid solution with both our island mode modular scalable solution, with superior emissions profile coupled with grid interconnect is really probably the best way to manage the high degrees of reliability that are required in a very efficient capital way.

Operator | Conference Operator:

The next question is from J.R. Weston with Raymond James. Please go ahead.

J.R. Weston | Analyst, Raymond James:

Yeah, hi, good morning. Just building off of some of the prepared remarks and kind of the opportunity there to add equipment and services and power solutions, Just as you kind of deepen the relationship with the customers and provide more of a bespoke power solutions offering there, how does it kind of inform the conversation on the longer-term value proposition and kind of the overall positioning of the business?

Bill Zartler | Chairman and CEO:

Sure. The overall proposition, so the customers are looking for high reliable power to support their needs. So when they look at the ideal selection for that, and the pricing of that and the control they want to have of that, especially how important it is for their operations to never lose power. You begin to, as Kyle said, with the building blocks of that, I think we mentioned that it's pairing up what we think the solution looks like. It's pairing up a combination of these small to mid-sized turbines, potentially with the grid power, generally with some level of battery system involved in there to deal with the load variability coming from the data demand itself. at either grid or large scale kind of frame units to go together and build a robust looking power plant that's designed, you know, bespoke for that kind of load profile. And so I think that strategically, that's where this seems to be shaping up.

J.R. Weston | Analyst, Raymond James:

Yeah, appreciate that. And just one more for me, kind of, again, building off of some of the questions earlier, you know, more about kind of the the queue here in fleet additions and build versus buy, but just kind of as you think about the longer-term objectives of the company and kind of maybe if and when EBITDA guidance

is achieved, how would you then look at kind of the free cash generation potential of that phase of the business? And how do you think about kind of the dividend versus maybe opportunistic or more routable fleet growth in that phase of the business?

Bill Zartler | Chairman and CEO:

Well, we've been through this cycle with several of our businesses, which is the build and the mining and the cash flow businesses. And I think we have had the ability to really see at what point you put your foot on the gas pedal and spend that money for attractive returns on assets, and at what point you spend that money to return it to shareholders. And I think that we look forward. Those decisions will be coming up here in the next year or so, and we're very well aware about how to make them. I think we've specifically even, as well as making a decision on when you go in and build a business with some of that free cash flow that will be more attractive for the shareholders. So I think that it's too early to determine that exactly, but I'll tell you that I think we do pay attention to it, we think about it, and when we get there, I hope we'll make the right decision.

Operator | Conference Operator:

The next question is from Jeff LeBlanc with TPH. Please go ahead.

Jeff LeBlanc | Analyst, TPH:

Good morning, Bill and team. Thank you for taking my question. I believe in the prepared remarks you mentioned that you don't expect the Q2 capacity acceleration to repeat. Is this a function of your customer's development plans, your equipment delivery schedule, or the ability to procure additional third-party capacity? Thank you.

Kyle Ramachandran | President and CFO:

Well, quite frankly, it's probably a combination of all. And so, yeah, as I alluded to in the second quarter, the demand was greater than we anticipated, and we were able to sort of meet that in a very timely way. So one of the things that we've proven, I think, across the history of this business is to be a very nimble group that can see the plays happening on the field and react. And so we've done that in multiple instances, and I think certainly the earnings contribution in the second quarter with respect to being able to deliver quickly. That was a big driver for us. And as we look forward, we talked about it on the prepared remarks, I think the SCRs and our ability to take a third-party manufactured piece of kit and really custom tailor it to the job location and hit a timeline that was far more accelerated than the OEM thought we'd be able to do. We really drove that through ingenuity and using some best practices that we've developed over the years, and I think we're going to continue to find ways in this business. I think we've unlocked significant option value in this business, and we're going to continue to see that unfold. It's hard to predict exactly what those options, how they're going to pay out, but I think we're finding multiple ways to win here, and we'll continue to see those opportunities. Thanks.

Jeff LeBlanc | Analyst, TPH:

And then I guess along the same lines, I think in the prior remarks, you also mentioned a generation agnostic approach to meet a customer's needs. Can you talk about the challenges related to integrating multiple types of technologies together and how we should be thinking about that moving forward?

Bill Zartler | Chairman and CEO:

We, you know, the team, our engineers, the team we got from MER are very, you know, used to dealing with how do you transform this power? What does it look like? Maybe we run... You know, our legacy business had a significant mix of reciprocating generation in it as we pair up for some of these jobs, the large-scale kind of two-ish megawatt, you know, receipts with some of the turbine business to sort of build the colored Lego blocks, if you will, of generating the right kind of power. We've got a mix of turbines. We've been running a mix of three different kinds or three different solar turbines with three different GE turbines in one data center site. And we expect for the next site in the joint venture, it's going to have a mixture of different equipment as well. And I think that's one of our modes as we build this business up around our technology, around our app that we mentioned, and how we control these things. I think that's part of the edge that we're building into the business.

Operator | Conference Operator:

The next question is from Nate Pendleton with Texas Capital. Please go ahead.

Nate Pendleton | Analyst, Texas Capital:

Good morning. Congrats on this strong quarter. With my first question, while I understand that the permits for longer-dated power generation are typically the responsibility of the host facility, can you talk about how much of your data center fleet today have those permits in hand?

Kyle Ramachandran | President and CFO:

Well, I think the way I would describe it is yes, you're correct. Generally speaking, it's the owner of the land, if you will, the owner of the job site that's going to be responsible for that permitting processes. We certainly play a role in that in supporting the assembly of that permit because it's going to include lots of granular details about the equipment that will be on site. And so the permit will specifically detail exactly what equipment is there, which obviously is good from our perspective because it sort of ties us together indirectly to the permit. With respect to where we're operating today, we are on two data centers. The first data center has received its Title V air permit, and then the second one is in process.

Nate Pendleton | Analyst, Texas Capital:

Got it. I appreciate the color. And for my follow-up, regarding the logistics solutions business, it looks like activity is projected to drop a bit in Q3 as broader activity is softened. Are there any operational levers or efficiency initiatives that the team is looking at to mitigate some of the impacts there?

Bill Zartler | Chairman and CEO:

Yes, that's obviously part of what's going on every day is ensuring that we can have the fixed costs that we kind of mentioned a little bit on the fixed cost absorption. We're keenly aware of that, and we're managing to this without jeopardizing the quality of the business. And we certainly, you know, all of our customers in both sides of the business, reliability is the most important thing to them and safety. And so we're not jeopardizing margins.

Operator | Conference Operator:

The next question is from Michael Dudas with Vertical Research Partners. Please go ahead.

Michael Dudas | Analyst, Vertical Research Partners:

Good morning, Yvonne, Bill, Kyle. Good morning. Bill, in your remarks and discussion, you cited the Texas legislation. Certainly the news out of PJM last week, again, continued to be surprising to the marketplace. Any thoughts on big, beautiful bill or how your clients and how your negotiations are maybe starting to get a little bit more clearer and accelerated given some of those dynamics, certainly in the power side, but maybe even on the energy side from your view?

Bill Zartler | Chairman and CEO:

I think in general, the power markets are now getting the signal on pricing that had been maybe not reflective of the actual market for firm power because of the renewal aspects of some of the businesses. So I think the PJM auction really did pull back the curtain on what the underlying cost for reliable power is or for baseload power is. And so I think as that unveils, it unravels itself, the notion that this semi-bridge to permanent kind of power in smaller scale with the reliability advances from a cost perspective, it's not out of line. And so as that unfolds, I think it makes it much easier to see how this segment evolves in the generation. And as Kyle mentioned with the gas suppliers, I mean, it does imply more gas demand. And natural gas has only got one carbon in it. So it's a relatively clean fuel as we continue to grow gas generation in this country to support the theme of electrification of everything from data centers to reshoring and manufacturing and to enhance technology. Gas production does supply all this, so there's some level of circularity there. So the notion that the country and our governments and regulatory frameworks are open up to understanding what needs to happen in an environmentally friendly way to develop the power that we need to continue to make this country competitive I think is important, and I think we're there.

Michael Dudas | Analyst, Vertical Research Partners:

That's encouraging. Thanks, Bill. Thanks.

Operator | Conference Operator:

The next question is from Bobby Brooks with Northland Capital Markets. Please go ahead.

Bobby Brooks | Analyst, Northland Capital Markets:

Hey, good morning, guys. Thank you for taking my question. Really impressive results, and it was good to see some of the open capacity contracted with the new energy customer. But what I wanted to hear your thoughts on is this. When I speak to some folks in the industry, everyone clearly understands, you know, Solaris' value proposition and its place in the market for power and data centers. But it seems like folks are less enthusiastic when they realize your open megawatts don't come until, you know, 7.5, 26. So keeping that in mind, my logic lends me to think that it's probably more likely that a data center contract would more likely be landed in 26 when you're closer to receiving those turbines in the back half of 25. Does that logic make some sense or are you seeing something different?

Bill Zartler | Chairman and CEO:

I think it makes no sense. I mean, people are talking about building nuclear plants that delivered in the 2030s, and they're making commitments for that today. So the large-scale frame units are deliveries in 26 to 29 that are being ordered today. So the planning horizon now understands that it has to match the power. And so I think there are still pockets of isolated places where you can get power sooner for smaller loads and do some things. And so we're beginning to fill up all that spare capacity. But I think as the large loads develop, there is a planning horizon out there that is well beyond what we see as our horizon. So in a lot of ways, the reaction you get to having power available by early, you know, by mid-26 and beyond is actually a surprise to the positive, not the negative.

Bobby Brooks | Analyst, Northland Capital Markets:

Fair enough. Appreciate that, Collier. I'll return to the queue.

Operator | Conference Operator:

The next question is from Thomas Merrick with Jannie Montgomery. Please go ahead.

Thomas Merrick | Analyst, Janney Montgomery:

Good morning, Bill and Kyle. Thanks for the time. I appreciate it. I'm curious on kind of longer-term strategy, specifically around partnerships, whether that's partnering with a different generation technology developer or fuel source or frame operator, things like that, or kind of a service-type business like demand response or even a kind of a capital partnership for financing. Does anything jump out at you from where we sit today as being very accretive to the Solaris business model? And that's it for me. Thanks.

Bill Zartler | Chairman and CEO:

I think we view partnerships as bringing complementary skill sets to the table, whether it's the asset base. And so we're and active discussions with gas producers about how to use their gas and put that together with pipeline companies and midstream assets on how do we work together to use what they can control through their assets and what we can control, and discussions with customers where they want to participate in owning a little bit of this and put a little bit of capital to work in the business across the board. where we've got that in a small scale in-house today, and that continues to grow and be very important to run a very high-quality, safe operation for the customers. And we need that kind of engineering and operations talent and technology that is evolving to ensure that these kind of hybrid, if you will, power plants are represented. So, yeah, I think partnerships are going to be things that will continue to happen across the board.

Operator | Conference Operator:

The next question is from Blake McLean with Daniel Energy Partners. Please go ahead.

Blake McLean | Analyst, Daniel Energy Partners:

Hey, good morning, guys. Yeah, I really kind of touched on it there on your last answer. I just wanted a little bit more color on how you guys are thinking about that balance of plant strategy. We know that supply chain is tight. So I was looking for just maybe more color on the collaborations you just talked about on the partnership side and how you're thinking about further development of that capacity in-house and kind of

what that does for you as you kind of go to market.

Bill Zartler | Chairman and CEO:

We think it's highly complimentary. It's a little bit like the strategy we have on the well-side business where we're adding more activity per customer and we control more of that with the top fill units and blenders and things. And so I think as we look at The power business, us controlling our own destiny on, to some extent, with transformers and switchgear and all of the software that needs to coordinate and drive all this stuff. I think all of that is stuff that we're keenly looking at. How do we build versus buy?

Kyle Ramachandran | President and CFO:

The only thing I'd add to that is I think what it also does is it opens up a wider addressable market with respect to supporting generation that is not necessarily our own. whether it's other modular solutions that are owned Solaris capacity or it's grid interconnect power. So those tangential pieces of kit are relevant for likely a wider addressable market than we even see today, despite having a really attractive addressable market today.

Operator | Conference Operator:

This concludes the question and answer session. I would like to turn the conference back over to Bill Zartler for any closing remarks.

Bill Zartler | Chairman and CEO:

Thank you. Thank you, everyone, for joining us today. I'm excited about the strong execution from the Solaris team today and equally encouraged by the opportunities ahead for Solaris as we continue to grow. Our success is a testament to the dedication and hard work of our employees, the trust of our customers, and the strong partnerships with our suppliers. Thank you for being a part of the Solaris team. We look forward to sharing our progress with you in a few months.

Operator | Conference Operator:

The conference has now concluded. Thank you for attending today's presentation you may now disconnect.